


AR22

annual report 1967





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MEDALLIONS STRUCK IN THE
SHERRITT MINT,
FORT SASKACHEWAN

FIVE-CENT COIN STRUCK BY THE
ROYAL CANADIAN MINT ON
COINAGE BLANK PRODUCED AT
FORT SASKACHEWAN



SHERRITT GORDON MINES LIMITED

ANNUAL REPORT 1967

1967 AT A GLANCE

| | 1967 | 1966 |
|-----------------------------------|--------------|--------------|
| Ore milled — tons | 1,071,000 | 1,205,000 |
| Ore reserve — tons | 11,900,000 | 11,400,000 |
| Nickel sales — pounds | 23,553,000 | 28,523,000 |
| Fertilizer sales — tons | 325,000 | 261,000 |
| Revenue from sales | \$49,375,000 | \$44,307,000 |
| Operating profit | \$11,832,000 | \$ 9,655,000 |
| Net earnings | \$ 5,392,000 | \$ 3,760,000 |
| Shares outstanding | 11,363,000 | 11,363,000 |
| Earnings per share | 47¢ | 33¢ |
| Dividends per share | 20¢ | 20¢ |
| Working capital | \$10,468,000 | \$10,257,000 |

ANNUAL MEETING

2:30 P.M., Tuesday, April 30, 1968
The Royal York Hotel, (Library)
Toronto, Ontario

SHERRITT GORDON MINES LIMITED

Directors

| | |
|-------------------|--|
| ELDON L. BROWN, | <i>Chairman of the Board</i> |
| W. E. P. DEROCHE, | <i>Vice-Chairman of the Board; Partner, Blake, Cassels & Graydon</i> |
| JOHN DRYBROUGH, | <i>Chairman of the Board, Newmont Mining Corporation of Canada Limited</i> |
| ALAN E. GALLIE, | <i>Vice-President, Marketing</i> |
| V. N. MACKIW, | <i>Vice-President</i> |
| PLATO MALOZEMOFF, | <i>President and Chairman of the Board, Newmont Mining Corporation</i> |
| DAVID D. THOMAS, | <i>President and Chief Executive Officer</i> |
| J. E. THOMPSON, | <i>Vice-President, Newmont Mining Corporation</i> |
| MERVYN A. UPHAM, | <i>Vice-President, Newmont Mining Corporation</i> |

Officers

| | |
|-------------------|---|
| ELDON L. BROWN, | <i>Chairman of the Board</i> |
| W. E. P. DEROCHE, | <i>Vice-Chairman of the Board</i> |
| DAVID D. THOMAS, | <i>President and Chief Executive Officer</i> |
| PETER A. CAIN, | <i>Vice-President, Mining</i> |
| ALAN E. GALLIE, | <i>Vice-President, Marketing</i> |
| R. G. MACKAY, | <i>Vice-President and Secretary</i> |
| V. N. MACKIW, | <i>Vice-President</i> |
| WM. H. YOUNG, | <i>Vice-President, Metals & Chemicals</i> |
| BRUCE I. WATSON, | <i>Treasurer</i> |
| JOHN H. LEE, | <i>Assistant Secretary-Treasurer</i> |

Auditors

DELOITTE, PLENDER, HASKINS & SELLS, TORONTO

Solicitors

BLAKE, CASSELS & GRAYDON, TORONTO

Transfer Agents

CANADA PERMANENT TRUST COMPANY, CANADA
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

Bankers

CANADIAN IMPERIAL BANK OF COMMERCE, TORONTO
MORGAN GUARANTY TRUST COMPANY OF NEW YORK

REPORT OF THE DIRECTORS

To the Shareholders,
Sherritt Gordon Mines Limited.

This report, including the audited financial statements for the year 1967, is submitted for your consideration.

A summary comparison of the year's operations with those of the previous year indicates that, despite sharp increases in costs, a record sales volume and higher prices for some products resulted in substantially increased earnings. Increased output of fertilizers and rolling mill products more than offset lower metal production at Lynn Lake and Fort Saskatchewan.

New all-time highs were recorded in
Revenue from sales
Operating profit
Fertilizer production and sales
Rolling mill production and sales
Special powders production and sales
Cobalt sales
Toll refining revenue.

The tonnage of ore reserves at Lynn Lake was moderately increased.

The program designed to get our Fox Mine into production in 1970 made good progress.

SALES

| | 1967 | 1966 |
|------------------------|------------|------------|
| Nickel pounds | 23,553,277 | 28,523,269 |
| Copper pounds | 10,556,159 | 11,462,111 |
| Cobalt pounds | 872,522 | 737,283 |
| Fertilizers tons | 324,512 | 261,444 |

Sales of special powders and rolling mill products showed a marked increase over the level of the previous year. On September 15 the price of our nickel powder and briquettes was increased from 85¼¢ to 98¢ U.S. per pound. Once again our nickel sales were limited by

the quantity of metal available for sale.

Despite increased productive capacity in western Canada our fertilizer sales in the domestic market were at a very satisfactory level. Anticipated off-shore export sales in the latter part of the year were delayed until 1968.

PRODUCTION

| | 1967 | 1966 |
|----------------------------|------------|------------|
| Nickel pounds | 22,224,172 | 29,472,869 |
| Copper pounds | 10,716,158 | 11,384,450 |
| Cobalt pounds | 764,073 | 790,597 |
| Fertilizers tons | 331,209 | 303,465 |
| Custom nickel pounds | 2,855,353 | 49,172 |

The sharp drop in nickel production was caused by a shortage of feed at the refinery during the first three quarters of the year.

Production during the fourth quarter was at full capacity.

EARNINGS AND DIVIDENDS

| | 1967 | 1966 |
|---------------------------|--------------|--------------|
| Revenue from sales | \$49,375,000 | \$44,307,000 |
| Operating profit | 11,832,000 | 9,655,000 |
| Net earnings | 5,392,000 | 3,760,000 |
| Earnings per share | 47¢ | 33¢ |
| Dividends per share | 20¢ | 20¢ |

The improvement in earnings was due to a number of factors, including increased sales of rolling mill products, special powders and fertilizers, and more revenue from toll refining and patent licensing. Higher prices were realized for most products but were offset for the most part by higher costs.

LYNN LAKE OPERATIONS

A total of 1,071,490 tons of ore was mined and milled in 1967 as compared to 1,205,318 tons in 1966. The mill treated an average of 2,936 tons per calendar day as compared to 3,302 tons per day for the year 1966. The grade of the mill feed was slightly higher than the average grade of the ore reserve. Due to the lower tonnage milled, production of nickel and copper in concentrates was approximately 5% and 6% respectively below that of the previous year.

The open pit in the surface pillar of the B orebody was supplying feed to the mill throughout the fourth quarter.

The Canadian Broadcasting Corporation established a Frontier T.V. station at Lynn Lake which operates four hours per day, broadcasting from tapes.

The prospect of a road connection from



BAGGED FERTILIZER STORAGE AT FORT SASKATCHEWAN

Lynn Lake to the Provincial highway system was considerably improved when the Manitoba Government let a contract for the construction of thirty miles of road out of Lynn Lake in the direction of Thompson.

Our power plants on the Laurie River operated satisfactorily throughout the year supplying a total of 59,458,000 kwh. Precipitation during the year was about normal.

With more underground labour available it was possible to do an increased amount of development work. A summary of the development work done during the year, with the corresponding figures for the previous year, is as follows:

| | 1967 | 1966 |
|------------------------------------|----------|----------|
| Drifting and cross-cutting | 16,837' | 14,940' |
| Raising | 9,921' | 4,093' |
| Shaft sinking | — | 1,159' |
| Underground diamond drilling | 101,380' | 122,985' |
| Surface diamond drilling | 8,549' | — |

Development work in the O and N zones in the south end of the A plug, above the 3,000'

level, was quite productive. Additional low grade ore was developed in the O zone and a

good orebody with a grade equivalent to the average grade of the ore reserve was outlined in the N zone. Indications of an additional orebody in this zone were obtained and it is anticipated that further drilling will outline a substantial tonnage of new ore.

LYNN LAKE ORE RESERVES

| Date of calculation | Tons | % Nickel | % Copper |
|-------------------------|------------|----------|----------|
| December 31, 1966 | 11,400,000 | 0.84 | 0.47 |
| December 31, 1967 | 11,900,000 | 0.83 | 0.46 |

At the current rate of mining, this ore reserve represents eleven years' supply, provided costs and metal prices remain in relative balance.

OUTSIDE EXPLORATION

Our airborne geophysical outfit did sufficient flying in northern Saskatchewan to keep our ground crews busy checking anomalies throughout the field season. Nothing of economic interest was located. In addition, under a partnership arrangement with Newmont Mining Corporation of Canada Limited, our airborne outfit surveyed a large area to the north-

In order to explore the N zone below the 3,000' level a new drift was driven on that level, from which systematic drilling can be done. This program of drilling started too late to obtain any significant results by year end.

east of Ilford, Manitoba. The follow-up work to this survey is the responsibility of Newmont. Nothing of interest had been located in this area by year end.

A program of surface diamond drilling was carried out at the north end of our Lynn Lake property to locate the extensions of certain gold-bearing veins from an adjoining property. The drilling was successful in picking up the veins but the metal content was too low to be economic at the present price of gold.

For a period of about six months we had two geologists examining laterite deposits in Indonesia, which is an interesting area, with



LYNN LAKE TOWNSITE — "A" PLANT IN BACKGROUND

laterite deposits scattered along a chain of islands over a length of some 1,500 miles. At the present time exploration and development in Indonesia are handicapped by the almost total lack of transportation facilities in and among the islands on which laterite deposits are located.



UNDERGROUND DRILLING AT LYNN LAKE

FOX PROPERTY

The development of the Fox Mine is predicated on bringing the mine into production in 1970, on a production scale of 3,000 tons of ore per day or 1,000,000 tons per year. A new mill will be built at the mine, and copper, zinc and probably pyrite concentrates will be produced.

Shaft sinking started at the end of March and by the end of the year the shaft had reached a depth of 1,327 feet with stations cut at 200' intervals. The original shaft contractor did not make satisfactory progress and was replaced late in the fourth quarter. Progress has been much improved since the change.

Three hundred tons of ore was mined in an open cut and transported to Lynn Lake for treatment in a pilot mill. Copper, zinc and pyrite concentrates were produced, with the pyrite concentrate being shipped to Fort Saskatchewan for experimental work. The ore is not difficult to mill, being very similar in this respect to the ore from the old mine at Sheridan.

A location survey for a transmission line from our Laurie River #2 generating station to the mine at Fox Lake was completed and

clearing of the right-of-way started before year end.

An agreement was reached with Manitoba Hydro which will ensure an ample supply of power for the Fox Mine at a reasonable cost. Under the terms of the agreement we will build the transmission line to Fox Lake and Manitoba Hydro will construct a transmission line from Thompson to our Laurie River #1 generating station, to be completed by June, 1970. Manitoba Hydro will then acquire the new transmission line from Laurie to Fox Lake at our cost of construction and we will turn over the whole of our Laurie River power system, including the two generating stations, the transmission line to Lynn Lake and the distribution system in the Town of Lynn Lake. Manitoba Hydro will then supply all the power required for the Company's operations at Lynn Lake and Fox Lake and will assume responsibility for supplying power to the residents of Lynn Lake. Due to our limited power supply residents of Lynn Lake have been restricted in their use of electric power. After Manitoba Hydro takes over there will be no limitations on the use of power by householders.

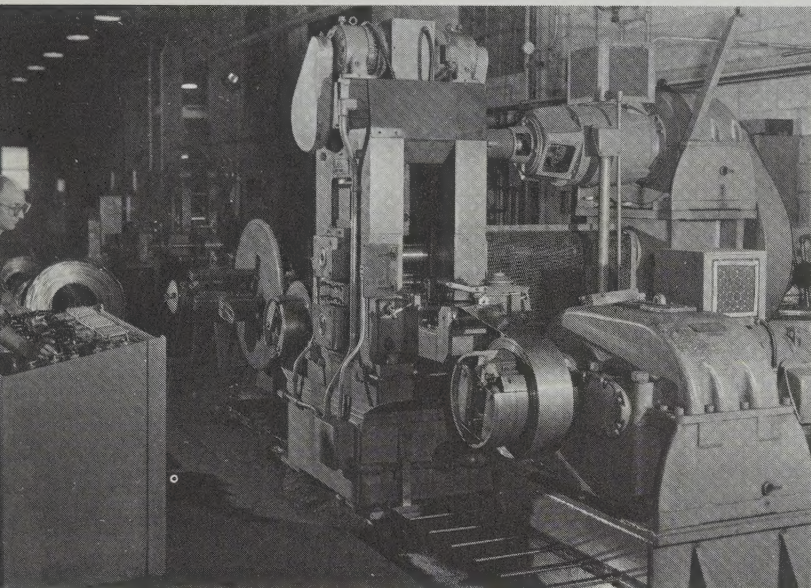
Concentrates from Fox will be trucked 18.5 miles from the mine to McVeigh, a station on the Lynn Lake railroad, some 14 miles south of Lynn Lake.

FORT SASKATCHEWAN OPERATIONS

Nickel production was 15% below that of the previous year due to a shortage of feed during the first three quarters of the year. During the fourth quarter the feed situation was much improved and excess nickel concentrate was being stockpiled. Cobalt production was about 3% below that of 1966. The metals plant operated continuously throughout the year except for the annual maintenance shutdown in July.

The rolling mill operated throughout the year producing nickel strip for coinage and for export. The coinage plant operated at a rate well below capacity for the first half of the year but at an increased rate during the latter half, following the receipt of orders from the Royal Canadian Mint for both pure nickel strip and pure nickel blanks for the new Canadian 10¢ and 25¢ pieces. In December we received a further order from the Royal Canadian Mint

for pure nickel blanks for the Canadian 5¢ piece. We also obtained an order from a foreign country for a large quantity of pure nickel coinage blanks for delivery over a three-year period.



NICKEL STRIP PRODUCTION AT FORT SASKATCHEWAN ROLLING MILL

The Sherritt Mint was kept fairly busy during the year on a number of orders for pure nickel medallions, most of them in connection with Centennial Year. In October we obtained our first order for a small quantity of pure nickel coins and in January, 1968 an order for a substantial quantity of pure nickel coins from a second country.

The fertilizer plants operated continuously throughout the year except for the annual maintenance shutdown and for a sixteen-day shutdown of the ammonia plant in September due to a breakdown of the primary reform furnace. Urea production had to be cut to 25% of capacity during this sixteen-day period when the ammonia plant was down. Total fertilizer production was 9% higher than that of the previous year. It would appear that the mechanical problems associated with our new ammonia plant have now been eliminated.

RESEARCH AND DEVELOPMENT

Two pilot plant programs, on different nickeliferous laterites, were successfully carried out with pure nickel powder as the end product. Adequate data were obtained from these pilot plant runs for the design of a 25 tons-per-day demonstration plant for the treatment of New Caledonian or Philippine laterites. Modifica-

tions to the basic process were developed for the recovery of nickel metal from garnieritic or weathered serpentine ores. This development considerably widens the field of application for our process and improves the economics.

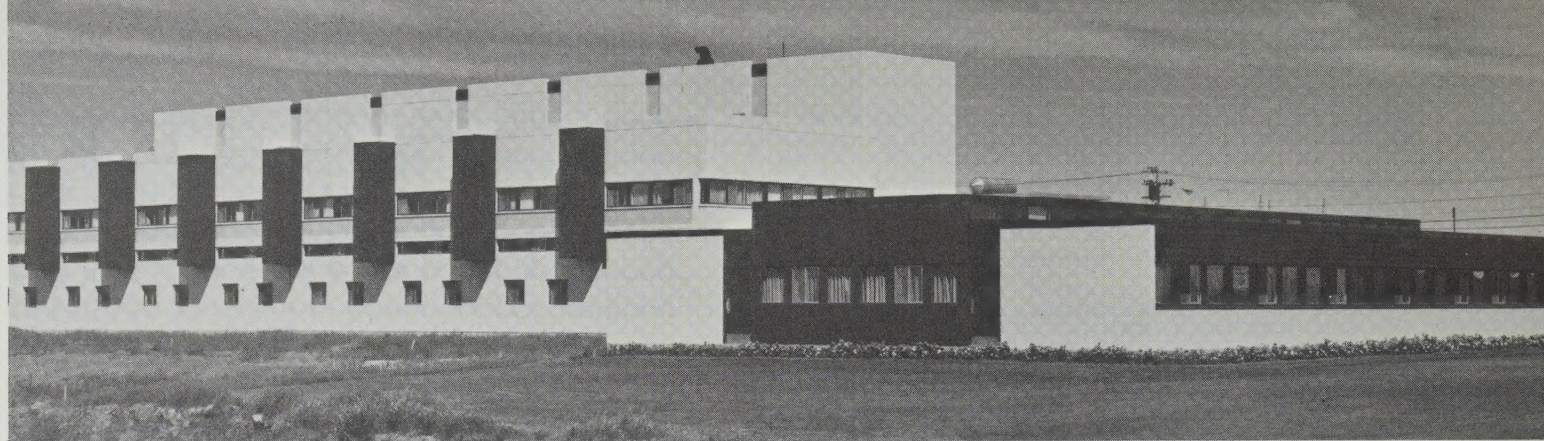
Further work was carried out on our pressure acid oxidation process for the treatment of zinc concentrate, copper concentrate and pyrite for the production of refined metals, iron and elemental sulphur. The current high price of sulphur and emphasis on pollution prevention have stimulated widespread interest in these processes.

Research on dispersion-strengthened nickel-base alloys for high temperature applications resulted in a number of important improvements in the physical characteristics of these products. This work was financially supported by Defence Research Board and United States Air Force contracts.

Outokumpu Oy's cobalt refinery in Finland started production during the second half of the year using our cobalt reduction process for the production of five tons of cobalt powder and briquettes per day.

Negotiations on an agreement between the Company and Western Mining Corporation Limited of Australia for the use of our nickel refining process in a refinery to be built in Western Australia were concluded in January of 1968. Under the terms of the agreement we provide a license for the use of our process, and assistance in the design of the plant, training of operators and the start-up of the new plant. Production is expected to start in 1970, after which the Company will receive annual revenue in the form of production royalties.

Fertilizer research was directed mainly toward improving the quality of our products and developing new fertilizer technology. The nucleus of an Agronomy Department was created which will study the effect of our new fertilizer formulations on plant growth under various soil and climatic conditions, and enable us to give better service to our customers in western Canada. Record sales of our new fertilizer "Nitro-pluS" in 1967 give an indication of the value of our research program.



SHERRITT RESEARCH CENTRE AT FORT SASKATCHEWAN

CAPITAL EXPENDITURES

The following is a summary of 1967 capital expenditures:

Lynn Lake

| | |
|--|------------|
| Improvements and additions to plant and townsite | \$ 783,000 |
| Development of the Fox Mine | 1,282,000 |

Fort Saskatchewan

| | |
|---|-----------|
| Improvements and additions to chemical plants | 609,000 |
| Improvements and additions to metals plants and general facilities including research | 297,000 |
| Patents | 35,000 |
| | <hr/> |
| | 3,006,000 |

| | |
|-----------------------------------|---------|
| Less capital research grant | 230,000 |
|-----------------------------------|---------|

| | |
|-------------|---------------------------|
| Total | <u><u>\$2,776,000</u></u> |
|-------------|---------------------------|

PERSONNEL

At the end of the year the Company had a total of 1,652 employees as compared to 1,622 at the end of 1966. The distribution, with comparable figures for the previous year, is as follows:

| | 1967 | 1966 |
|--------------------------------------|------|------|
| Lynn Lake | 696 | 651 |
| Fort Saskatchewan | | |
| Metal and Chemical | 783 | 802 |
| Rolling mill and coinage plant | 53 | 26 |
| Research and Development | *63 | 92 |
| Executive Office — Toronto | 25 | 19 |
| Marketing Division | | |
| Metals — Toronto | 15 | 15 |
| Fertilizers — Edmonton | 17 | 17 |

*The reduction in research personnel was partly due to the transfer of analytical personnel to the Metal and Chemical Division.

A crew from our Lynn Lake Mine won the 1967 Manitoba Provincial Mine Rescue Competition.

At Lynn Lake a three-year contract was negotiated with Local 5757, United Steelworkers of America. The contract, which runs through to March 1, 1970, provides for substantial fringe benefits and general wage increases of 11.4%, 4.6% and 5.3% of existing wage rates at the time of the agreement, effective March 1, 1967, March 1, 1968 and March 1, 1969 respectively. This agreement keeps our wage rates in line with those at Thompson.

At Fort Saskatchewan a two-year contract was negotiated with Local 530 of International Chemical Workers' Union. The contract, which runs through to May 1, 1969, provides for general wage increases of 8.4% and 6.5% of existing wage rates at the time of the agreement, effective May 1, 1967 and May 1, 1968 respectively; an additional 5¢ per hour for

qualified tradesmen and Operator 1 classifications; improvements in the paid vacation schedule and other fringe benefits.

The increase in costs to the Company of these two labour contracts will amount to \$875,000 for the first year and \$1,225,000 for the second year of the contracts.

GENERAL

The outlook for the year 1968 is generally favourable. Barring some unforeseen development, we expect the demand for nickel to remain strong throughout the year. Although we have assurance of ample feed for the refinery throughout 1968, a substantial portion will be treated on a toll basis so that our own nickel production will be no higher than that of 1967. As we have orders on hand sufficient to keep the rolling mill, coinage plant and mint operating at a high level throughout the year much of our own nickel will be used in these plants. The long drawn-out strike which cut off nearly all the copper production in the United States since July 1967 was responsible for the continued inflated price of copper. The cobalt situation is complicated by releases from the United States Government stockpile. Fortunately for us the stockpile cobalt is not of as high quality as our cobalt which puts some limitation on its use.

It is expected that the fertilizer marketing situation in western Canada in 1968 will be highly competitive; however, due to the excellent work done by our grain company outlets we anticipate holding, or even increasing, our share of the market. We should sell all the fertilizer we produce in 1968.

Negotiations for financing of our Fox Mine project in 1968 have been in progress for some months now and we hope that definite arrangements will be concluded during the first half of the year.

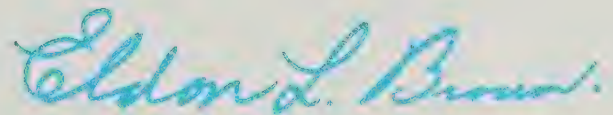
As I mentioned at the Annual Meeting of April 27, 1967, we have an arrangement to

work with and to provide technical assistance to Marinduque Mining and Industrial Corporation in the Philippines for the production of nickel from lateritic ores. Marinduque, using our process information, has submitted a proposal to the Philippine Government for the development of the Surigao Mineral Reservation with the establishment of a plant for the production of 50,000,000 pounds of nickel and 4,500,000 pounds of cobalt per year. At this date no decision has been announced on this proposal but we anticipate a decision shortly.

In 1967 the Company continued to claim for income tax purposes more depreciation and deferred development expenditures than it has written off in the accounts and in this way has greatly reduced the amount of income tax for the year. However, this has resulted in the elimination of all depletable income for income tax purposes for 1967 so that Canadian Shareholders will not be entitled to a depletion allowance on any dividends paid in 1968. It is anticipated that the Company will be required to pay a substantial amount of income tax on its income for 1968.

The Directors wish to express their appreciation of the loyal and efficient services rendered throughout the year by all the Company's employees.

On behalf of the Board,



Chairman.

Toronto, Ontario, March 1, 1968.

SHERITT GORDON*Incorporated under the laws of the Province of Ontario***BALANCE SHEET***(with comparative figures for 1966)***ASSETS****CURRENT**

| | 1967 | 1966 |
|--|-------------------|-------------------|
| Cash | \$ 100,481 | \$ 161,173 |
| Accounts receivable — trade | 6,922,380 | 6,921,277 |
| — other | 1,054,946 | 881,713 |
| Inventory of raw materials, materials in process and finished products — finished metals sold under contract valued at net realizable value, other materials and products valued at lower of average cost and net realizable value | 9,773,955 | 9,370,020 |
| Operating supplies, spare parts and other materials valued at average cost | 3,550,467 | 3,388,652 |
| Insurance and other prepaid items | 99,970 | 83,521 |
| | <u>21,502,199</u> | <u>20,806,356</u> |

NON-CURRENT

| | | |
|--|----------------|----------------|
| Housing loans due from employees | 624,758 | 645,103 |
| Special refundable tax | 137,251 | 242,300 |
| | <u>762,009</u> | <u>887,403</u> |

PROPERTY, PLANT AND EQUIPMENT, at cost

| | | |
|--|-------------------|-------------------|
| Mine — Lynn Lake | 18,053,069 | 17,401,332 |
| Power — Laurie River (note 2) | 8,614,684 | 8,590,068 |
| Metal and Chemical — Fort Saskatchewan | 64,620,687 | 64,350,512 |
| | <u>91,288,440</u> | <u>90,341,912</u> |
| Less accumulated depreciation | 39,545,080 | 35,180,594 |
| | <u>51,743,360</u> | <u>55,161,318</u> |
| Mining claims less amounts written off | 32,966 | 36,382 |
| | <u>51,776,326</u> | <u>55,197,700</u> |

DEFERRED DEVELOPMENT EXPENDITURES

| | | |
|---|-----------|-----------|
| Unamortized mine development and metallurgical research | 7,789,007 | 8,567,332 |
|---|-----------|-----------|

OTHER

| | | |
|--|---------------------|---------------------|
| Deferred development — Fox Property, at cost | 2,824,900 | 1,542,575 |
| Investment in subsidiary and other companies at cost less amounts written off (note 3) | 156,953 | 191,134 |
| Patents at cost less amounts written off | 731,068 | 803,665 |
| | <u>3,712,921</u> | <u>2,537,374</u> |
| | <u>\$85,542,462</u> | <u>\$87,996,165</u> |

INES LIMITED

Corporations Act, Ontario

DECEMBER 31, 1967

(figures for 1966)

LIABILITIES**CURRENT**

| | 1967 | 1966 |
|--|-------------------|-------------------|
| Accounts payable and accrued | \$ 6,047,947 | \$ 5,204,546 |
| Mining royalty and income taxes payable (note 4) | 6,352 | 4,415 |
| Canadian National Railways (note 5) | — | 350,000 |
| First Mortgage Bonds (note 6) | | |
| 4¾ % Sinking Fund Bonds — | | |
| payment due May 1, 1968 (1,956,700 U.S.) | 2,115,070 | 2,121,185 |
| 5½ % Sinking Fund Bonds — | | |
| payment due December 31, 1968 .. (2,500,000 U.S.) | 2,702,344 | 1,300,875 |
| 6¾ % unsecured note | — | 1,463,484 |
| Unclaimed dividends | 162,863 | 105,095 |
| | <u>11,034,576</u> | <u>10,549,600</u> |

NON-CURRENT

| | | |
|---------------------------|---|------------------|
| 6¾ % unsecured note | — | <u>1,451,250</u> |
|---------------------------|---|------------------|

FIRST MORTGAGE BONDS (note 6)

| | | |
|---|-------------------|-------------------|
| 4¾ % Sinking Fund Bonds | — | 1,916,577 |
| 5½ % Sinking Fund Bonds | | |
| due December 31, 1972 (14,100,000 U.S.) | 15,173,454 | 17,863,783 |
| | <u>15,173,454</u> | <u>19,780,360</u> |

SHAREHOLDERS' EQUITY**CAPITAL (note 7)****Capital stock****Authorized**

12,000,000 shares par value \$1 per share

Issued and fully paid

11,363,318 shares

11,363,318 11,363,318

Contributed surplus

Net premium on sale of shares

10,538,927 10,538,927

21,902,245 21,902,245

RETAINED EARNINGS

37,432,187 34,312,710

59,334,432 56,214,955

Approved by the Board:

ELDON L. BROWN, Director

DAVID D. THOMAS, Director

\$85,542,462 \$87,996,165

Sherritt Gordon Mines Limited

STATEMENT OF EARNINGS

for the year ended December 31, 1967 (with comparative figures for 1966)

| | 1967 | 1966 |
|--|--------------|--------------|
| REVENUE FROM SALES | \$49,374,640 | \$44,306,597 |
| Cost of sales | 35,291,035 | 32,229,633 |
| GROSS PROFIT FROM SALES | 14,083,605 | 12,076,964 |
| Research expense | 694,949 | 925,405 |
| Outside exploration expense | 292,944 | 338,187 |
| Administrative and selling expense | 1,264,050 | 1,158,445 |
| | 2,251,943 | 2,422,037 |
| OPERATING PROFIT | 11,831,662 | 9,654,927 |
| Interest expense less interest income of \$213,528 (1966 — \$128,745) | 1,136,190 | 1,341,362 |
| Patent licensing revenue | (275,885) | (115,567) |
| Other non-operating charges — net | 195,665 | 189,970 |
| | 1,055,970 | 1,415,765 |
| EARNINGS BEFORE TAXES AND WRITE-OFFS | 10,775,692 | 8,239,162 |
| Mining royalty and income taxes (Note 4) | 10,000 | 120,000 |
| EARNINGS BEFORE WRITE-OFFS | 10,765,692 | 8,119,162 |
| Depreciation and other write-offs including amortization of intangibles of \$107,622 (1966 — \$105,573) | 5,373,551 | 4,359,440 |
| NET EARNINGS FOR THE YEAR | \$ 5,392,141 | \$ 3,759,722 |
| EARNINGS PER SHARE | 47¢ | 33¢ |

STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1967 (with comparative figures for 1966)

| | 1967 | 1966 |
|--|--------------|--------------|
| BALANCE AT BEGINNING OF THE YEAR | \$34,312,710 | \$32,825,651 |
| Net earnings for the year | 5,392,141 | 3,759,722 |
| | 39,704,851 | 36,585,373 |
| Dividends paid — 20¢ per share | 2,272,664 | 2,272,663 |
| BALANCE AT END OF THE YEAR | \$37,432,187 | \$34,312,710 |

The accompanying notes are an integral part of the financial statements.

STATEMENT OF SOURCE AND USE OF FUNDS

for the year ended December 31, 1967 (with comparative figures for 1966)

| FUNDS WERE OBTAINED FROM | 1967 | 1966 |
|---|---------------------|---------------------|
| Operations for the year | | |
| Net earnings | \$ 5,392,141 | \$ 3,759,722 |
| Depreciation and other amounts deducted in arriving at net earnings but which did not involve an outlay of funds | 5,958,325 | 4,892,314 |
| | <u>11,350,466</u> | <u>8,652,036</u> |
| Issue of 5½ % First Mortgage Sinking Funds Bonds due 1972 | — | 2,045,469 |
| Issue of capital stock | — | 54,000 |
| Special refundable tax due in 1968 | 109,017 | — |
| Repayment of advances to subsidiary and other companies | 43,966 | — |
| | <u>11,503,449</u> | <u>10,751,505</u> |
| Decrease in working capital | — | 1,671,573 |
| | <u>\$11,503,449</u> | <u>\$12,423,078</u> |
| FUNDS WERE USED FOR | | |
| Expenditures on capital and deferred assets | | |
| Lynn Lake mine plant and development costs including power, townsite facilities and employee housing ... | \$ 783,092 | \$ 1,307,758 |
| Fort Saskatchewan metal and chemical plants including research facilities (less capital grant of \$230,000 in 1967) | 675,339 | 4,089,310 |
| Acquisition of patents | 35,024 | 41,011 |
| Deferred expenditures on development of Fox Property | 1,282,325 | 980,833 |
| | <u>2,775,780</u> | <u>6,418,912</u> |
| Reduction in long-term indebtedness | 6,244,138 | 3,438,944 |
| Dividends paid | 2,272,664 | 2,272,663 |
| Special refundable tax | — | 240,000 |
| Advances to subsidiary and other companies | — | 52,559 |
| | <u>11,292,582</u> | <u>12,423,078</u> |
| Increase in working capital | 210,867 | — |
| | <u>\$11,503,449</u> | <u>\$12,423,078</u> |
| WORKING CAPITAL | | |
| Balance at beginning of the year | \$10,256,756 | \$11,928,329 |
| Increase (decrease) during the year | 210,867 | (1,671,573) |
| Balance at end of the year | <u>\$10,467,623</u> | <u>\$10,256,756</u> |

The accompanying notes are an integral part of the financial statements.

Sherritt Gordon Mines Limited

NOTES TO FINANCIAL STATEMENTS

1. Conversion of Foreign Currencies. Transactions in foreign currencies have been converted into Canadian dollars at rates prevailing at the time of such transactions, except that current assets and current liabilities have been converted at the quoted rate of exchange at December 31, 1967.

2. Laurie River Power Plants. Under an Agreement entered into in 1967 with the Manitoba Hydro-Electric Board for the future supply of electric power to the Company for its mining operations at or near Fox Lake and Lynn Lake, Manitoba, the Company will relinquish the ownership of its Laurie River power generation, transmission and distribution facilities not later than June 30, 1970. Thereafter Manitoba Hydro will be responsible for supplying power to the Company for a period of 30 years at a fixed price. During the first ten years of the Agreement the Company is committed to purchase a fixed minimum amount of power.

The Agreement requires the construction by the Company and by Manitoba Hydro of certain transmission lines by June 30, 1970 after which Manitoba Hydro will purchase the present Laurie River facilities for \$1 and the transmission line constructed by the Company at its cost. The undepreciated cost of the Laurie River facilities at June 30, 1970 will be approximately \$2,500,000. The Company will benefit by an adequate supply of electric power at reasonable cost for the Lynn Lake and Fox Mines and for any other development by the Company in the area.

3. Subsidiary Companies. It is the policy of the Company not to consolidate the accounts of subsidiary companies. All profits and losses of subsidiary companies have been reflected in the financial statements. In 1967 Michipicoten Iron Mines Limited, a 67% owned subsidiary, leased the Ruth and Lucy iron ore properties to The Algoma Steel Corporation, Limited under a renewable 99-year lease. The lease calls for minimum ore royalty payments for a period of 13 years from which the Company's share of the anticipated profits will be approximately \$7,000 per year for the years 1968 and 1969 and approximately \$90,000 per year for the years 1970 to 1979 inclusive. As at December 31, 1967 the investment in this subsidiary was recorded at \$1 plus the Company's share of its 1967 profits amounting to \$8,749.

4. Income Taxes. As permitted under the Income Tax Act the Company has claimed for tax purposes to December 31, 1967 approximately \$31,000,000 more

depreciation and deferred development expenditures than it has written off in the accounts. This practice has resulted in lower income taxes in this and preceding years, but it should be understood that the sum available for future deductions for income tax purposes as depreciation and deferred development write-offs is \$31,000,000 less than would appear from the balance sheet itself.

5. Canadian National Railways. Under an Agreement with Canadian National Railways the Company is obligated to pay \$350,000 annually for a period of 20 years ending May 1, 1974 and to receive future refunds on outgoing tonnage shipped over the Lynn Lake-Sherridon line.

Agreement in principle has been reached with Canadian National to amend the present Agreement by cancelling the remaining annual payments of \$350,000 each, provided certain minimum tonnages are shipped over the line. A reduced refund will apply to concentrate tonnage shipped over the line commencing January 1, 1968. No provision has been made in the 1967 accounts for the payment of \$350,000 due May 1, 1968 under the original Agreement.

6. First Mortgage Bonds. At December 31, 1967 details of outstanding First Mortgage Bonds and Sinking Fund payments were as follows:

| | | |
|---|-------------------|-------------------|
| 1968 4¾ % Sinking Fund Bonds | | |
| Due May 1, 1968 | | \$ 1,956,700 U.S. |
| 1972 5½ % Sinking Fund Bonds | | |
| Due Dec. 31, 1968 | \$ 2,500,000 U.S. | |
| Due Dec. 31, 1969 to 1972 inclusive at \$3,525,000 U.S. each year | 14,100,000 U.S. | 16,600,000 U.S. |
| First Mortgage Bonds outstanding Dec. 31, 1967 | | \$18,556,700 U.S. |

Under the Indenture securing the First Mortgage Bonds the Company may not make a dividend distribution which would reduce working capital below \$9,000,000.

7. Capital. There were outstanding at December 31, 1967 Share Purchase Warrants issued in 1956 to the Company's Bondholders entitling the holders to purchase 30,082 shares at a price of \$6 per share on or before May 1, 1968.

8. Remuneration of Directors and Officers. In 1967 the direct remuneration of directors and senior officers of the company was \$280,017 (1966 - \$222,000).

AUDITORS' REPORT

TO THE SHAREHOLDERS OF SHERRITT GORDON MINES LIMITED:

We have examined the balance sheet of Sherritt Gordon Mines Limited as at December 31, 1967 and the statements of earnings, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the Company as at December 31, 1967 and the results of its operations and the source and use of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Ontario, February 15, 1968.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

TEN - YEAR RECORD 1958 - 1967

PRODUCTION

| Year | Metal Production — Pounds — | | | | Fertilizer Production Tons |
|------|-----------------------------|-------------------------|------------|---------|----------------------------------|
| | Total Nickel | Toll Nickel Included | Copper | Cobalt | |
| 1958 | 25,006,584 | 2,793,285 | 9,890,745 | 274,365 | 108,709 |
| 1959 | 25,097,375 | 284,645 | 10,341,365 | 314,343 | 117,878 |
| 1960 | 30,969,231 | 7,710,893 | 10,990,069 | 310,410 | 139,959 |
| 1961 | 26,480,386 | 4,474,811 | 11,251,881 | 191,043 | 137,761 |
| 1962 | 27,203,747 | 2,890,124 | 10,530,650 | 608,580 | 130,425 |
| 1963 | 23,930,561 | 2,959,379 | 11,977,903 | 607,511 | 166,828 |
| 1964 | 28,207,702 | 240,766 | 13,035,268 | 594,249 | 178,211 |
| 1965 | 25,790,422 | | 12,391,743 | 530,137 | 214,281 |
| 1966 | 29,522,041 | 49,172 | 11,384,450 | 790,597 | 303,465 |
| 1967 | 25,079,525 | 2,855,353 | 10,716,158 | 764,073 | 331,209 |

PROFITS AND DIVIDENDS

| Year | Revenue from Sales | Operating Profit | Earnings | Earnings Per Share | Dividends | Dividends Per Share |
|------|-----------------------|---------------------|-----------|-----------------------|-----------|------------------------|
| 1958 | 20,644,641 | 6,916,878 | 3,234,041 | 29¢ | | |
| 1959 | 20,156,171 | 5,925,593 | 2,370,320 | 21¢ | | |
| 1960 | 24,987,704 | 7,806,918 | 3,751,835 | 33¢ | 2,833,329 | 25¢ |
| 1961 | 23,947,113 | 8,025,942 | 3,906,730 | 34¢ | 3,399,995 | 30¢ |
| 1962 | 23,646,665 | 5,723,158 | 2,048,159 | 18¢ | 1,699,998 | 15¢ |
| 1963 | 30,382,084 | 7,908,324 | 2,710,539 | 24¢ | 2,266,664 | 20¢ |
| 1964 | 35,361,286 | 9,566,883 | 5,001,611 | 44¢ | 2,266,664 | 20¢ |
| 1965 | 39,311,146 | 10,345,338 | 5,396,543 | 48¢ | 2,270,264 | 20¢ |
| 1966 | 44,306,597 | 9,654,927 | 3,759,722 | 33¢ | 2,272,663 | 20¢ |
| 1967 | 49,374,640 | 11,831,662 | 5,392,141 | 47¢ | 2,272,664 | 20¢ |

ORE PRODUCTION AND RESERVES

| Year | LYNN LAKE | | | | FOX LAKE | | |
|------|--------------------|------------|-------------------------|----------|------------|-------------------------|--------|
| | Tons Ore Milled | Tons | Ore Reserve % Nickel | % Copper | Tons | Ore Reserve % Copper | % Zinc |
| 1958 | 892,423 | 14,600,000 | 0.90 | 0.48 | | | |
| 1959 | 988,541 | 14,158,000 | 0.96 | 0.54 | | | |
| 1960 | 1,151,419 | 14,300,000 | 0.92 | 0.53 | | | |
| 1961 | 1,219,157 | 14,000,000 | 0.92 | 0.54 | 4,600,000 | 1.78 | 2.82 |
| 1962 | 1,262,502 | 14,000,000 | 0.94 | 0.55 | 4,600,000 | 1.78 | 2.82 |
| 1963 | 1,346,192 | 11,916,000 | 0.96 | 0.58 | 4,600,000 | 1.78 | 2.82 |
| 1964 | 1,362,693 | 11,012,000 | 0.98 | 0.59 | 12,100,000 | 1.72 | 2.28 |
| 1965 | 1,363,583 | 12,600,000 | 0.84 | 0.49 | 12,269,000 | 1.74 | 2.35 |
| 1966 | 1,205,318 | 11,400,000 | 0.84 | 0.47 | 12,269,000 | 1.74 | 2.35 |
| 1967 | 1,071,490 | 11,900,000 | 0.83 | 0.46 | 12,269,000 | 1.74 | 2.35 |

Commencing with the year 1965 the Lynn Lake ore reserve includes an allowance for dilution.

SHERRITT GORDON MINES LIMITED

MINING AND MILLING DIVISION

LYNN LAKE, MANITOBA

PETER A. CAIN, *Vice-President, Mining — Manager*
J. C. FOLINSBEE, *Superintendent of Mines*
J. A. MACLELLAN, *Mill Superintendent*
L. H. SMITH, *Plant Superintendent*
G. D. RUTTAN, *Chief Geologist*
H. N. BOWERS, *Administration Manager*
W. F. CLARKE, *Personnel Manager*

METAL AND CHEMICAL DIVISION

FORT SASKATCHEWAN, ALBERTA

WM. H. YOUNG, *Vice-President, Metals and Chemicals — Manager*
B. BENSON, *Manager, Metals*
H. M. BILKEY, *Manager, Chemicals*
K. O. COCKBURN, *Manager, Production Services*
J. FERGUSON, *Manager, Employee & Industrial Relations*
I. S. J. HUBERDEAU, *Manager, Administration*
R. J. LOREE, *Manager, Engineering*
WESTERN MINING CORPORATION LIMITED PROJECT
C. A. HAMES, *Manager*
T. W. BENZ, *Assistant Manager*

RESEARCH AND DEVELOPMENT DIVISION

FORT SASKATCHEWAN, ALBERTA

V. N. MACKIW, *Vice-President and Director of Research*
25 King Street West, Toronto 1, Ontario
D. J. I. EVANS, *Manager*
H. VELTMAN, *Assistant Manager*
P. T. O'KANE, *Manager, Development*

MARKETING DIVISION

25 KING STREET WEST, TORONTO 1, ONTARIO

ALAN E. GALLIE, *Vice-President, Marketing*
R. F. PEARCE, *Manager — Metallurgical Sales*
J. A. FRASER, *Manager — Fertilizer Marketing*
1 Thornton Court, Edmonton, Alberta

EXECUTIVE OFFICE

25 KING STREET WEST, TORONTO 1, ONTARIO

